



# 2016 Sustainability Report





# Summary

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## Message from the CEO GRI G4-1

### 2016: a year of achievements and renewal

2016 will be marked by the profound renewal process undergone by Avibras. We initiated a major effort focused on strategic planning which, among other objectives, encompasses the reorganization of processes and remodeling corporate governance to leverage business, transform people and review processes in a structured and organized fashion.

A fundamental point in this transformation is to expand synergy within the company, improving the planning and execution of contracts. This was made necessary by the fact that we have never had as many active contracts at the same time as we did in 2016.

Moreover, we believe that this synergy will mitigate impacts on cash flow, generated mainly by the influence of seasonal factors on sales, by extending and scaling deliveries and receipts.

While this impressive number of contracts has practically quintupled our revenue in four years, it has also demanded a great deal of working capital, due to the need to hire additional manpower and acquire production inputs. This led to great pressure on the organization's cash flow, undoubtedly the major challenge faced during the year. We are proud to say that the efforts of each of our more than 1,800 employees enabled us to overcome this challenge, ending the year with net revenue of R\$ 1.39 billion,

Ebitda of R\$ 424.8 million – representing an operating margin of 31% – and net income of R\$ 254.9 million, equivalent to a net margin of 18%. These are important results, achieved with a great deal of hard work and dedication.

The transformation we are undergoing has boosted our delivery capacity, opening up new market niches. In Brazil, even though federal government budget restrictions might be limiting new orders, we are studying conditions that will enable negotiations. Additionally, we visualize new opportunities with the resumption of the Brazilian Space Program.

The overseas market continues to be the main driving force of our revenues, in particular due to the broad acceptance of the ASTROS system, a versatile product that permits constant updating, making it attractive in a situation in which technological modernization cycles are becoming shorter and shorter. However, we need to remain attentive to the strong competition from military powerhouses.

Innovation and technological excellence are fundamental for us to maintain our position among the major players in the defense market. To enable this, we have a highly qualified work force set on obtaining the best possible results.

*“A fundamental point in our transformation in 2016 is to expand synergy between the projects being executed, made necessary by the fact that we have never had as many active contracts at the same time”*

**João Brasil Carvalho Leite**  
CEO

## **Innovation and excellence are fundamental for us to continue as a major player.**

Our reorganization is also driven by sustainability. Avibras instituted a Sustainability Committee which provides full support for company governance and management, working to ensure focus on environmental, social and economic aspects to incorporate the generation and distribution of value into company strategy and day-to-day operations.

The essence of the Avibras culture is the constant pursuit of the best possible results through the dedication and engagement of all its employees. This indispensable base is

underpinned by four pillars which have driven the company since its foundation more than 50 years ago by a group of engineers from the Instituto Tecnológico de Aeronáutica (ITA), including João Verdi Carvalho Leite. A pioneer in the aerospace sector, Avibras projected Brazil's presence in one of the most competitive markets worldwide - the Defense sector.

We are proud of our history and our growth, the result of the competence of our professionals, technological innovation and the quality of our products and services.

The course adopted involves investing in the sustainable development of Avibras to ensure a promising future for our people and all our stakeholders.

Enjoy reading the report.

**João Brasil Carvalho Leite**  
CEO





# About the report

- > Presentation
- > Materiality matrix

# Presentation

GRI G4-18; G4-19; G4-20; G4-21; G4-24; G4-25; G4-26; G4-28

**Attentive to the need to demonstrate its sustainability initiatives, Avibras is publishing its first report on the company's economic, environmental and social performance.**

This is the first Sustainability Report published by Avibras. The document has been produced in accordance with Global Reporting Initiative (GRI) methodology, one of the most widely accepted methodologies for communicating management for sustainability worldwide.

The report is self-declared in accordance with the GRI core option and details the organization's performance between January 1 and December 31, 2016. **G4-28; G4-32**

## Report objectives

Avibras has always conducted sustainability initiatives. To demonstrate this, the company is publishing its first report, providing society and the market with an account of its economic, environmental and social performance.

The purpose is to contextualize its actions and the results obtained in managing for sustainability during the course of 2016. The content may include facts occurred before or after the reporting period to provide the reader with a broader understanding of the company's current situation.

Produced with stakeholder groups such as communities, customers, suppliers, government agencies and shareholders in mind, the document also provides parameters to enable the organization to improve its performance and processes with a focus on sustainable development.

This constitutes a management tool that enables the company to verify the extent to which its management for sustainability is in adherence with international guidelines.

## Orientation of content

The content was determined in accordance with seven strategic dimensions, established in the company's strategic planning (*read more on page 15*), which are directly linked with the profile of the business:

- Business and competitive intelligence
- Innovation & technology
- Results: financial health
- Business excellence
- Organization and management mechanisms
- Business culture
- Leadership and people

The chapters address the material topics for management, identified in the Avibras materiality matrix.

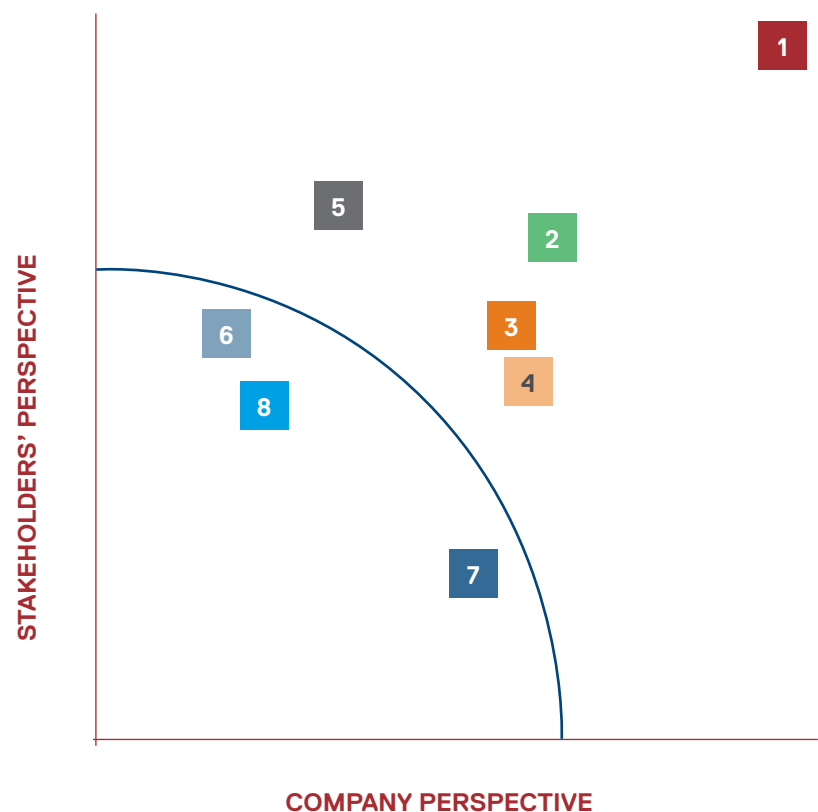
# Materiality matrix

The materiality matrix was constructed based on the identification of the most relevant topics for Avibras management. The analysis of internal and industry documents helped to contextualize each topic. The diagnosis involved interviews with an internal cross-functional team and with external

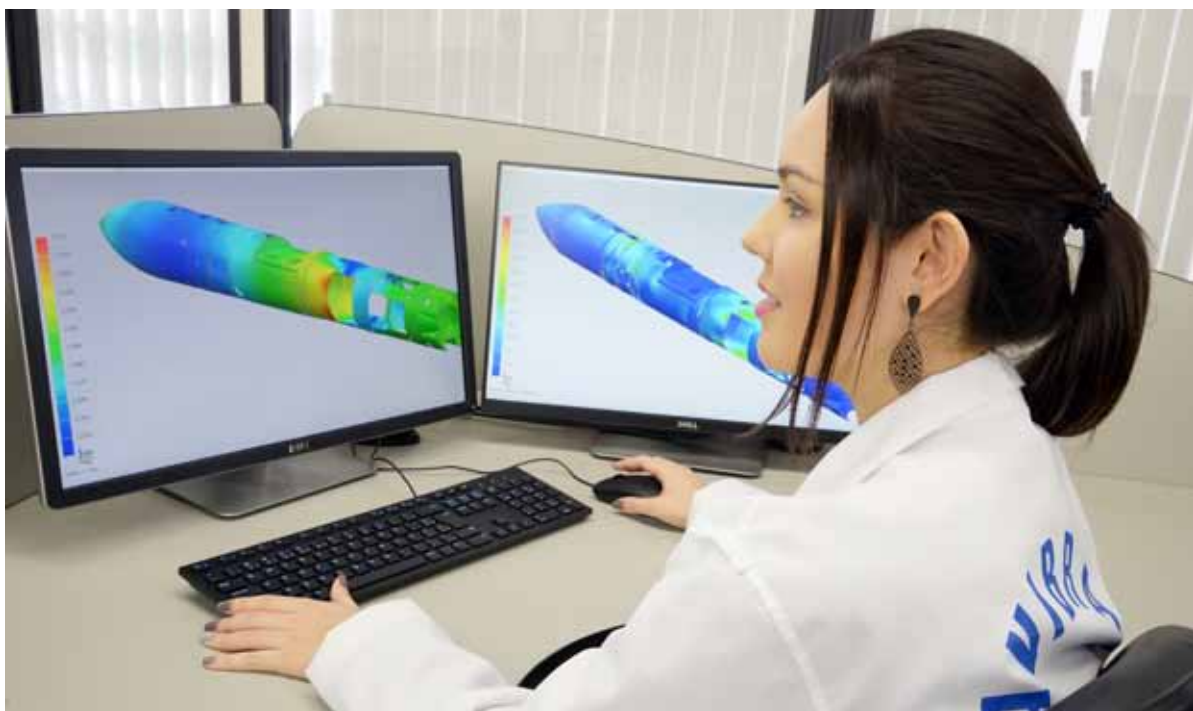
stakeholders. The GRI indicators reported throughout the text were selected based on the material topics and prioritized in accordance with their relevance for Avibras. Moreover, each topic is linked with at least one of the strategic dimensions.

## Material topics

- 1. Business strategy and economic performance
- 2. Qualification of human capital
- 3. Government relations
- 4. Healthy work environment
- 5. Excellence in technology
- 6. Product and service quality and safety
- 7. Community relations and local development
- 8. Governance and ethical conduct







Innovation and technological excellence

## Strategic dimensions x material topics



Obs.: The numbers represent the material topics identified in the materiality matrix. Their position in the diagram indicates each one's correlation with the corresponding strategic dimension.



# avibras

- > Who we are
- > Our history
- > Overview of the defense industry
- > Business and competitive intelligence

## material topics

- \_ Healthy work environment
- \_ Business strategy and economic performance
- \_ Government relations

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# Who we are

## Innovation and independence through 100% Brazilian technology

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Avibras Indústria Aeroespacial is a privately-owned Brazilian company recognized worldwide for the excellence and quality of its products and systems. Its essence resides in the company's innovation and independence in critical technologies in the areas of aeronautics, space, electronics, vehicles and defense. **G4-3; G4-7; G4-17**

In the course of 55 years, Avibras has consolidated its position as a driver of development by doing business in a way that generates value for customers, shareholders

and society in a sustainable manner through employees who are professionally fulfilled.

Today the company has large, modern facilities located in Vale do Paraíba in the state of São Paulo, the main aerospace technology hub in Brazil. The presence of the industrial park, with investments in innovations that boost the range of products destined for the domestic and overseas markets, generates employment and tax income for the municipal governments in the region. **G4-6**

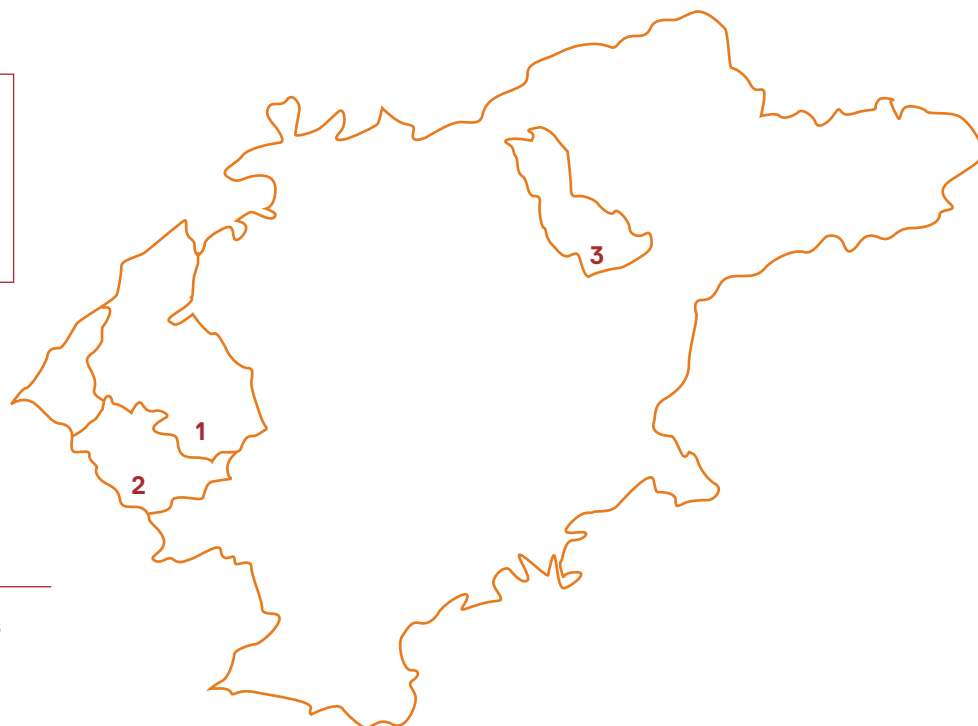
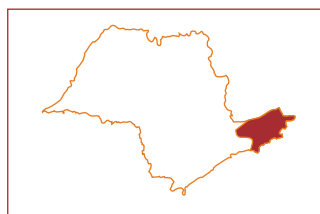
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***“Over 50 years ago a group of ITA engineers, including João Verdi Carvalho Leite, made Avibras one of the pioneers in the aerospace sector and projected Brazil into the global Defense market.”***

**João Brasil Carvalho Leite**  
CEO

## Aerospace hub

We have large, modern facilities in Vale do Paraíba, in São Paulo G4-5



1. São José dos Campos
2. Jacareí
3. Lorena

G4-9

**8.7 x**

growth in gross  
revenues in 5 years

**1,800**

employees

**89%**

of the company  
production is exported





# Our history

## 50 years of innovation and pioneering activities

Avibras occupies an outstanding position in the history of the Brazilian aerospace sector as a pioneer in the construction of aircraft and the development and manufacture of special vehicles for military and civilian purposes. Fully independent, with its own cutting edge technology, the company's high degree of specialization and cross disciplinary focus distinguish it in Brazil and on the global scene as a system house.



Falcão, the first aircraft manufactured in São José dos Campos

## 1960-1969

### Foundation

In 1961, engineers from the Instituto Tecnológico de Aeronáutica (ITA) – including João Verdi Carvalho Leite – founded Avibras, one of the first Brazilian companies to serve the aerospace sector. Verdi was distinguished by his intelligence, perseverance, determination and his profound business vision. He was known as a true citizen of the world and a visionary who attained the status of an icon in technology and innovation in Brazil.

### Aircraft

The first projects were the Alvorada aircraft, a training model, and the Falcão, the first airplane manufactured in São José dos Campos (SP). Both were made from composite materials (fibers) derived from the space race, a global technological innovation at that time.

### Space

While still in its first decade in operation, Avibras participated in the Brazilian Space Program, developing a solid perchlorated composite propellant for Sonda I, the first Brazilian space rocket, applied in atmospheric and meteorological studies.

### Rockets

At the end of the 1960s, the company started to develop surface-to-surface rockets and missiles for the Brazilian Army, in addition to air-to-ground rocket systems and helicopter armaments for the Brazilian Air Force and for the Naval Aviation arm of the Brazilian Navy.



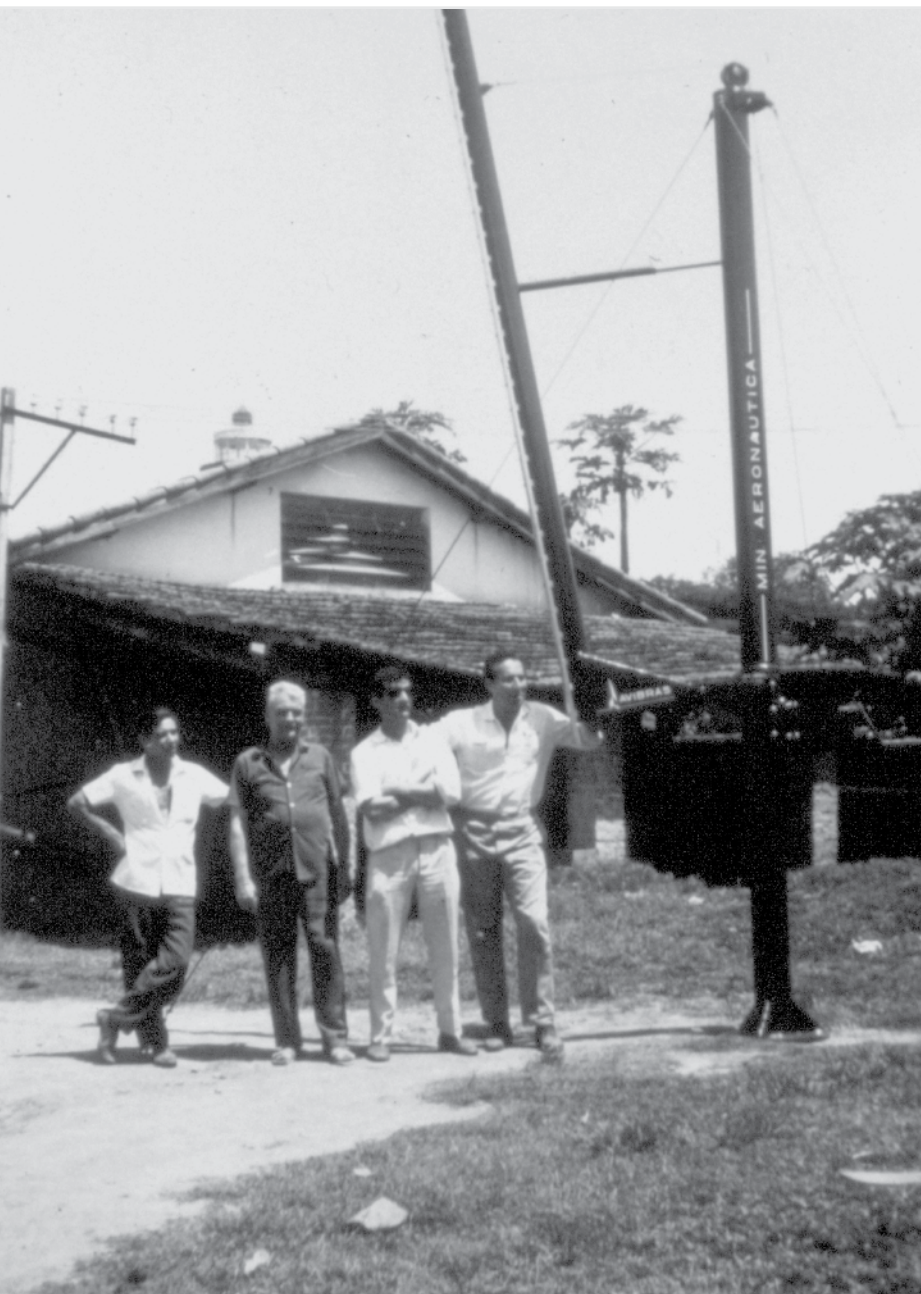
## 1970-1979

### Communications

In the 1970s, Avibras started manufacturing and assembling 10-meter diameter parabolic antennas which, at the time, were responsible for a major part of the telecommunications coverage in the country by Telebras. The advantage was the assembly system, which enabled them to be transported and assembled in remote locations.

### Vehicles

Avibras diversified its production in the 1970s, developing and manufacturing materials handling and transportation systems, such as road and rail vehicles, container handling equipment, electric drive systems for trolleybuses and other special purpose vehicles.



## 1980-1989

### Expansion

The 1980s were marked by a growth in exports, by the development of new defense systems and Avibras's expansion with the opening of new facilities and partnerships with associated companies to develop new products, systems and services in the civilian and military areas.

### ASTROS

With the development and start up of exports of the artillery saturation rocket system (Astros) family in 1983, Avibras made a huge qualitative and quantitative leap forward.

### Fundação Avibras

The Fundação Avibras was created in 1983 based on the motto "Education and Work" to provide young people from low-income families with study scholarships. With this institution, the founder João Verdi Carvalho Leite innovated once again, providing young people with the opportunity to grow, develop and work towards creating a better country for all.

In its first decade in operation, Avibras participated in the Brazilian Space Program

## 1990-1999

### Recognition

The permanent pursuit of technological innovation and engineering excellence were Avibras's most remarkable attributes, recognized by its partners in project development, by the Brazilian Armed Forces and by government financing agencies.

## 2000-2009

### Impulse

The resumption of growth in the Brazilian defense industry from 2007 provided Avibras with a new impulse. The company strategy of maintaining a specialized and qualified labor force enabled it to meet the significant growth in orders, and consequently production, in a short space of time.



João Verdi Carvalho Leite, founder of Avibras, with the ASTROS, the company's biggest commercial success

## 2010-2016

### Social Responsibility

In 2010, Avibras supplied the Brazilian Army with the Guar patrol vehicle to assist in its peace mission in Haiti, demonstrating its importance on the global scene

### Industrial capacity

The result of a bold, enterprising project, the new Avibras armored vehicle plant came into operation at Installation 2 in Jacare, in December 2014. With the objective of boosting the company's technological potential and productivity and reducing costs, Installation 2, which was already the biggest munitions and missile factory in Latin America, was transformed into the most modern wheeled armored vehicle manufacturing unit in Brazil.

### Technological potential

2016 was marked by innovation with the launch of the prototype of the Guar 4WS 4X4 Light Armored Vehicle on Wheels, completely designed by Avibras. The vehicle incorporates all the technology employed by

the company in its highly successful military projects, diversifying production and serving new market niches with state-of-the-art technology conceived, developed and tested in Brazil.

### Innovative management

A profound transformation in the company's governance and management, based on strategic planning, resulted in the "construction of the future" driving new business opportunities, improved financial performance and stronger relations with customers and other strategic stakeholders for the company, as well as growth for employees and for the organization as a whole.

### Record

The great demand for the systems offered by Avibras, strong relations with international clients and the resumption of close links with the domestic market multiplied company revenues by 8.7 times over a five-year period, exceeding R\$ 1.39 billion.

## Overview of the Defense Industry

The defense industry is key for the nation as a critical component of any national mobilization effort in response to a threat to society. It also leverages technological development, generating highly skilled jobs, productivity and high added value services.

The development and strengthening of the Industrial Defense Base (IDB) are fundamental for Brazil, which is rich in human and natural resources and seeks an ever greater projection on the international political and economic scene.

In this context, Avibras is assuming a key role on the global scene, offering innovative solutions in Aeronautics, Space, Electronics, Vehicles and Defense.

Ministry of Defense certification as a "Strategic Defense Company" (EED in the Portuguese acronym) also reinforces Avibras's position in the industrial defense base. Considered a benchmark in the sector,

the seal enables companies classified as strategic to obtain competitive advantages in commercializing their products to the armed forces or to overseas buyers.

This certification entails requirements that include majority control in Brazilian hands, Brazilian ownership of technology and the commitment to maintain production in the country. Another requirement is that the companies manufacture or are engaged in the production cycle of strategic defense products.

Each certified company is entitled to tax benefits that reduce production costs, making it more competitive in the domestic and overseas markets.

Its pioneering spirit, past successes and excellent products have given Avibras a strong competitive edge and a privileged position in relation to the Brazilian armed forces, consolidating the company as a partner in important defense programs.

## Business and competitive intelligence

### A culture based on the pursuit of results

Innovation, excellence, efficiency in internal process and the pursuit of continuous improvement are fundamental Avibras characteristics. Since its foundation, the company has applied its cultural traits to obtaining positive results both for the company and for its employees and other stakeholders.

These traits are firmly rooted in our day-to-day routines and, more importantly, in the mindset of employees, ensuring a healthy and productive work environment focused on business excellence.

The commitment to the four priorities – safety, quality, deadlines and cost – is evident, constituting competitive intelligence that strives to combine complete fulfillment of customer needs with total quality.

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## Our values, our culture

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### Safety

Our highest priority, because people are our main value. The company as a whole is always alert to unforeseen events that could put its employees, installations, products and confidential information at risk. Everyone is responsible for safety and must uphold it constantly.

### Quality

Quality is essential for the future of the company. It drives recognition of the company and reinforces its market positioning. The maxim is that all work must be done well the first time. Executing their activities in accordance with internal procedures, with goodwill, zeal and awareness is an attribution of all Avibras employees, regardless of their position in the hierarchy.

### Deadlines

Are fundamental for successful results. Honoring commitments assumed with customers is essential.

### Costs

The objective here is to boost competitiveness, control cash flow and leverage results.

### Working towards the future

The characteristics of the Avibras culture are reinforced and incremented by the company's strategic planning. The plan sets forth the efforts that the entire Avibras team must make to achieve the company's strategic goals (desired results) in the short, medium and long terms.

The need to extend long-term vision and ensure the company's future was the main driver behind the implantation of strategic planning. This tool enables the company to anticipate and develop structured plans for its needs in terms of technology, human resources and finance, as a means of promoting sustainable growth and ensuring the organization's future.

### Avibras Total Quality

Avibras's businesses entail the most sophisticated technologies, which require strong quality management and outstanding performance on the part of human resources. Quality is an indispensable condition for the company's sustainability. The Avibras Total Quality Program is aimed at ensuring awareness of this requirement at every level of the organization.

More than the hallmark of the company, quality is the hallmark of the people who make it what it is. It permeates the daily routines of all Avibras employees.

Wherever we are, we are Avibras and we strive for excellence in everything we do. This is our essence, it is present in our work force and in our daily routines.

### Convergence driving results

Employees are the lifeblood of the company. By means of team work, continuous alignment and the efforts and dedication of its human capital, Avibras conducts its activities and generates continuous value for its stakeholders.

All company areas and employees are of equal importance in achieving results. The Avibras culture reinforces harmonious relations in day-to-day routines, with a sense of team work and mutual collaboration in which everyone fulfills their role responsibly.



# corporate governance

- > Organization and management mechanisms
- > Business culture

## material topics

- \_ Governance and ethical conduct
- \_ Healthy work environment



# Organization and management mechanisms

## Restructuring in course

Aimed at adapting its management model to current demands and the market reality, Avibras is promoting an in-depth reformulation of its corporate governance and management structures. This process is being led by senior management.

In addition to the executive board, the new structure comprises committees and governance support groups and provides for the future implantation of a Board of Directors.

### Executive Board

This is a pre-established governance body whose central role is to oversee management of the company, to take measures in accordance with strategic directives and values, aimed at driving business excellence, sustainability and the achievement of targets.

## STATUTORY BOARD

**João Brasil Carvalho Leite**  
*Chief Executive Officer*

**José de Sá Carvalho Júnior**  
*Executive Vice President*

**Leandro Villar**  
*Executive Vice President*

## DIRECTORS

**Cynthia Benedetto**  
*Financial Director - CFO*

**Fábio Nakagawa**  
*Industrial Director*

## COMMITTEES

### Sustainability Committee

This body devises tools to monitor environmental, social and economic performance and verify the company's adherence to international guidelines. It involves employees from the entire company (*further information in Sustainable Management – Social and Environmental Performance; p. 30*)

### Ethics Committee

This body promotes the legitimacy, compliance and enhancement of the Code of Conduct, upholding the processes, customs,

policies, standards, regulations and guidelines that constitute the Avibras culture. (*further information in Corporate Governance – Business culture; p. 19*)

### Audit and Risk Committee

Currently being implanted, this committee will identify, assess and analyze risks to which the company is exposed and will monitor measures to mitigate them. It will consist of internal and external consultants and will be audited independently to ensure impartiality in assessing processes.

## SUPPORT GROUPS

### Budget

The group validates budget planning and takes the measures necessary to ensure execution.

### Procurement

Responsible for assessing the real need for purchases based on what has been established in the budget.

### Strategic planning

The group tracks the evolution of the strategic goals established for the company.



Managers work to ensure that the different areas' decisions and actions are always fully aligned with business goals

## Risk management G4-2

The risk map for Avibras's businesses is being drafted in a detailed process scheduled to take place over a 12-month period.

The first stage, initiated in November 2016, was focused on scenario analysis and the identification of risks the business faces.

The second stage will determine strategies and procedures that will enable the company to mitigate such risks, both preventively and reactively, in a process that will receive inputs from strategic planning.

## essence

We strive for the best possible results, engaging the efforts and dedication of the entire work force

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# Business culture

## Characteristics representing the company

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### Mission

To develop the company's own innovative, independent technology in the fields of Aeronautics, Space, Electronics, Vehicles and Defense, sustainably generating value for our customers, shareholders, employees and society.

Comprising habits, beliefs and values, the Avibras culture is oriented by standards, principles, mindsets and perspectives which should be shared by all employees. These are qualities and cultural traits that constitute the company's way of thinking and acting, making it unique.

Aware that culture impacts, influences and shapes organizational life, since its foundation Avibras has applied these cultural traits with a view to driving positive results for all its strategic stakeholders. Our culture is based on the posture and mindset of all employees, who represent our way of being and act as multipliers.

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### Vision

To be a benchmark in Brazil in technological independence, unique solutions, solidity, technical boldness, competitiveness and responsibility, always guided by the nation's broader interests.

The concept that Avibras belongs to all employees is broadly disseminated, driving mutual satisfaction, enthusiasm and goodwill in the work place.

The internal procedures are part of the culture, recounting Avibras's history and constituting a memory center for company knowledge and experience. The procedures are dynamic, remaining abreast of the company's evolution, without the need for revolutions.

We are a solid defense company, with a continuous focus on innovation and competitiveness. Our management and governance are guided by ethics and transparency, influencing the market positively and creating an environment of trust.

## Avibras values

### HEALTHY ENVIRONMENT

To ensure that the company is a great place to work, where employees can achieve fulfillment.

### SUSTAINABILITY

To obtain a fair profit while serving society, being useful to the nation and driving economic, social and environmental sustainability.

### SAFETY

To rigorously ensure safety in the broader sense: occupational safety, safety in travel, security for property and information security.

### QUALITY

To do it right the first time. Quality depends on each individual! To ensure quality in everything we do. To pursue excellence in all our responsibilities.

### RESPECT FOR PEOPLE

To value the human capital that identifies with the company culture, remaining permanently updated, innovative and productive, constituting a living example of evolution without revolution.

### TEAM SPIRIT

Capable of working alone and in teams, showing mutual respect, zeal and willingness, without stealing the limelight. To engage in open dialogue.

### INNOVATION

To remain alert using sources of competitive advantage to exploit opportunities to use and commercialize the company's technology in new market niches, responding rapidly and with quality to customer requests.

### SOLIDITY

To organize the company for consistent growth, avoiding adventures that might put its survival at risk.

### STRATEGIC TECHNOLOGY

To diversify markets and stabilize revenues, based on the knowledge and technologies developed.

### GUIDELINES FOR SUCCESS

To use internal procedures in a creative, proactive manner, as a recipe for success in the pursuit of up-to-date solutions. To focus on results and collaboration, assuming ownership of the company's goals.

### VALUING PRINCIPLES

Commitment to the company's values. Wherever we are, we will always be Avibras professionals.

### FOCUS ON RESULTS

To act in an integrated and planned way, aimed at optimizing time and resources in order to achieve our goals and meet our deadlines with quality.

### HARMONY WITH THE ENVIRONMENT

Commitment to the best environmental practices and to conserving biodiversity in the company's factories. Respect and harmonious interaction with the environment.

### BUSINESS CONDUCT

Commitment to doing business with integrity, effectively applying the Code of Ethics and Conduct, in addition to observing the management, internal procedures and work instruction manuals. Continuous improvement in compliance and anti-corruption measures and systems.



Avibras seeks to ensure a healthy, productive work environment focused on the permanent pursuit of improved results

## Ethics and anti-corruption G4-SO4, G4-SO5, G4-12, G4-14

Ethics is always in evidence when Avibras does business

A commitment to ethical conduct and sustainability has always been part of Avibras's cultural values. In its more than 50 years of activities, the company has employed a series of standards and procedures that are indispensable for its operations.

These values, defined as principles that guide the organization's life, are evident in Avibras's performance in compliance and ethics, with no records of cases of corruption involving the company.

To ensure business is conducted correctly, Avibras has implanted internal structures and mechanisms to fight corruption and all kinds of deviations in conduct, ensuring a safe, fair and healthy business environment.

Avibras is compliant with legislation, standards and regulations in all the areas in which it operates, ranging from contracts with the Brazilian or overseas governments to contracts with private companies, suppliers and all others types of institution.

The Avibras management model is extremely transparent. All business transactions comply rigorously with the principles of impartiality, transparency, ethics, fair competition and absence of conflicts of interest, taking into account current and future societal needs in the economic, environmental and social spheres.

Avibras invests continuously in enhancing corporate governance and the instruments used to enforce it – such as the Code of

Conduct, audit processes and awareness measures –, in addition to providing training in this area for all company stakeholders

The company is part of the Defense Companies Anti-Corruption Index organized by Transparency International (TIUK), which assesses the transparency and quality of ethics and anti-corruption programs in 163 defense companies in 47 countries.

Driven by senior management and with full employee engagement, Avibras is focused on becoming an ever more solid, ethical and transparent company, committed to its customers and to the development of Brazil.

### Communication and clarity

For Avibras, preventing corruption is an integrated action which values greater individual, collective and institutional commitment. For this reason, the company invests in anti-corruption measures, communication and training to promote the desired conduct and disseminate compliance policies and measures among all strategic stakeholders.

All suppliers receive the Avibras Code of Conduct and must sign a term of acknowledgement. Employees are submitted to an induction and training process in which they learn the company's best practices. Upon starting work they have access to documents that help guide their behavior, including the Code of Conduct (further information on the following page). Additionally, the company has a training plan aimed at instructing employees in the content

***“Everyone in the organization must commit to doing business with integrity, adopting anti-corruption policies, procedures and practices, regardless of their hierarchical level.”***

### Avibras Code of Conduct



and practical aspects of good conduct and integrity policies.

#### **Training for leaders**

In 2016, Avibras conducted training on ethics and compliance with a tailor-made program for senior managers, managers and employees in sensitive areas. This is an ongoing initiative aimed at driving continuous debate on ethics and developing anti-corruption measures in order to consolidate a culture of integrity in the company.

#### **Supplier engagement**

Brazilian and overseas suppliers, service providers and agents are duly oriented about Avibras cultural values and guidelines regarding ethical principles and best business practices. All are expected to be aware and to act in accordance with the company's Code of Conduct.

Aimed at preventing corruption or fraud in tenders and contracts involving third-parties, Avibras Supply Chain policy is extremely clear and transparent. Avibras undertakes the appropriate assessments in contracting and overseeing suppliers, service providers and agents, in particular in situations considered to be of high risk. No kinds of favoritism are permitted.

All contracts have anti-corruption clauses to preclude actions not in accordance with Avibras ethical principles. Furthermore, the company does not do business with partners, agents and contractors who do not adopt a zero tolerance approach to corruption. Avibras assesses the anti-corruption practices and policies of all companies with which it does business.

Service providers who operate on company premises are obliged to acknowledge and to comply with the occupational health and safety standards Avibras applies to its own employees.

Last year, Avibras presented its new procurement policy to suppliers. This is aimed at building quality, long-term relations with this audience ensuring ethical conduct in all business relations. Suppliers were informed of the company's anti-corruption policies and received a copy of the code of conduct, being required to sign terms of acknowledgement.

## **Ethics Channel**

In May 2017 Avibras launched its Ethics Channel, an exclusive, secure and confidential channel for reporting conduct in breach of the company's Code of Ethics or legislation, aimed at ensuring a work environment even more closely aligned with the company's values and culture.

The channel is part of a set of measures adopted to reinforce transparency and compliance with best corporate governance practices, strengthening Avibras's market positioning. Reports may be made by employees, including third-party workers, suppliers, customers and the community in general.

Prior to this, reports were made through the Ombudsman, which also received and processed suggestions, criticisms, praise and reports.

## **channels**

#### **E-mail:**

[www.canaldeetica.com.br/avibras](http://www.canaldeetica.com.br/avibras)

#### **Telephone:**

0800 741 0001

### Targets G4-SO5

Avibras has established the following anti-corruption targets for 2017:

#### Updating of the Code of Conduct –

undertaking the first review of the document, which is being modified in the light of new company requirements.

#### Investment in communication and training

– increasing the frequency of training for new employees and bringing existing ones up-to-date.

#### Contracting an external ombudsman

- **Ethics Channel** – to ensure greater transparency and credibility in procedures, offering greater security and confidentiality in the receipt of any reports of deviations in conduct and other irregularities.

All reports will be handled by an independent area, which will be accountable to the Audit and Risk Committee, informing the information received, how it was analyzed and the measures effectively taken in each case.

**Implementation of the company's integrity program** – in a single document setting forth all the anti-corruption measures in place in the company under the terms of Brazil's anti-corruption law, encompassing the following pillars: commitment and support of senior management; the area responsible for analyzing profile and risks; establishment of rules, instruments and strategies for continuous monitoring.

All these transformations are aimed at further reinforcing Avibras's positioning in the market, driving improved results for all involved, greater security and a work environment even more closely aligned with the values and culture that helped build our company.



Integrity in practice: engaged employees committed to the company's corporate values

## Code of Conduct G4-56

The Avibras Code of Conduct is designed to provide guidance for those with whom the company relates both internally and externally, aimed at driving transparency in business conduct. The document sets forth rules that establish the ethical and behavioral standards to be upheld by all company professionals, irrespective of hierarchical level, in internal and external relations.

It also formalizes Avibras's commitment to doing business with integrity, not only ensuring compliance, but also adopting policies, procedures and practices that ensure a corruption-free business environment.

The company has instituted a plan to train employees on the content and the practical aspects of Avibras integrity policies.

The full version of the Avibras Code of Conduct is available on the internet at: [www.avibras.com.br](http://www.avibras.com.br) – Governança Corporativa – Conduta dos negócios – Código de Ética

# our products and services

- > Innovation and technology
- > Operational excellence

## material topics

- \_ Excellence in technology
- \_ Product and service quality and safety

# Innovation and technology

## Differentials that drive recognition

With its development and industrial training centers and specialized professionals qualified in diverse fields of technology, Avibras creates competitive differentials based on quality, innovation and high technology, ensuring global recognition for its products.

In addition to manufacturing high added value products, the Avibras industrial park generates employment and the development of critical technologies.

All the company's activities are compliant with Brazilian and international standards.

The segments served by Avibras and its main products are: **G4-4, G4-8**

### Defense Systems

#### **ASTROS (Artillery Saturation Rocket System)**

A global benchmark in its class, the ground-to-ground rocket launching system is distinguished by its great mobility and capacity to launch diverse caliber rockets and missiles, covering distances ranging from 9 to 300 kilometers. The versatile system may be used for field artillery and coastal operations.

#### **Missiles and rockets**

A pioneer in the field, Avibras has total capacity to design, develop and produce rockets and missiles for space research and for military applications. The company is known globally for its family of solid high-energy composite propellants.

#### **AV-VBL**

Light armored 4WD multi-task vehicle with self-defense systems that can be configured for command and control, troop transportation, surveillance and rescue.

#### **Falcão**

A Remotely Piloted Aircraft (RPA) produced with Brazilian technology for purposes of reconnaissance, target acquisition, fire support, damage assessment, as well as ground and maritime surveillance.

#### **AV-TCM ASTROS**

Turbo-jet powered tactical cruise missile with a range of 300 kilometers, in the final stages of development and certification.

#### **SKYFIRE Air-to-ground**

The latest generation of 70 mm rocket system with high-energy motor, different warheads and launchers with armament management systems for almost all types of fixed-wing aircraft or helicopters

#### **SKYFIRE Ground-to-Ground**

An artillery system that can be mounted on light vehicles or towed. It is appropriate for special forces or light artillery, capable of firing a volley of 36 70 mm rockets in 12 seconds at a range of up to 12 kilometers.

#### **C4ISTAR Systems**

Fixed and mobile command posts for use by military units in combat operations, as well as part of fixed command chains.

#### **Anti-aircraft Defense System**

Developed in partnership with international companies in the 1980s with updates now available, the FILA low altitude defense system controls cannons and missiles. The medium altitude defense system adopts missiles and latest generation radar for the defense of critical infrastructure in theaters of operation.

#### **Universal Integrated Tactical Artillery System**

A system that permits any tube artillery, ranging from howitzers to mortars, including older models, to be used more efficiently and accurately by means of the digitalization of their subsystems.

**Electronics and Software Division**

Avibras develops, produces and integrates hardware and software for large defense systems employing complex architecture. The company has a broad range of solutions for onboard real time and mission-critical systems, meteorological sensors, radar, inertial navigators, GPS and DGPS systems, as well as military radios for communication and control besides geographical information systems that support navigation and monitoring for missions in the field and interoperability solutions for complex architectures.

With modern laboratories for systems and electronic integration, Avibras develops simulation systems, communication protocols for various platforms, in addition to user-friendly operational interfaces.

In the electronics area, the company has specialized teams, fully equipped laboratories and design tools to develop hardware and firmware for onboard electronic equipment and the provision of integrated logistics support. It also performs tests on electronic equipment produced by other manufacturers to be integrated into Avibras products.

**Vehicle Division**

With 18,000 square meters, the vehicle plant may be considered the most modern armored vehicle on wheels unit in Brazil. It is located in the same plant that houses the largest munitions and missile industrial complex in Latin America.

With robust industrial capacity and high technology, the plant develops and implements solutions for the production of special purpose vehicles, mainly for military use.

The company also offers solutions in the fields of industrial automation and logistics, port automation, container handling and loading, road-rail transportation systems and multimodal integration systems.

**Civilian Market**

With a diversified line of products and services, Avibras also supplies the civilian market, spinning off its proprietary technologies in the chemical, transportation, electronics, electrophoretic deposition (KTL) and quality assurance fields.

The company also offers surface treatments for metal parts, applicable to steel, galvanized steel and aluminum, mainly for applications in the automotive industry.



**Investment in innovation and critical technologies provides a wider range of products recognized globally for their excellence and quality.**



# Operational excellence

## Total quality in our activities

To ensure quality and excellence in its products and services, Avibras strategy is to work in an increasingly integrated and planned manner, driving synergy between its different projects to optimize time and resources. The goal is to fulfill customers' needs and exceed their expectations by boosting efficiency and delivery capacity without sacrificing the company's high standards of quality.

This strategy is supported by a quality engineering structure which includes laboratories and equipment rarely found in a single location in Latin America, as well as the services of some of the main specialists in the market.

### Lorena Unit

The Lorena unit, known as Installation 3, produces ammonium perchlorate (AP), an oxidizing material that supplies the oxygen for burning the propellant used in rockets. This is an input whose sale is restricted on the international market, the reason for which the company opted to produce it internally. This verticalization minimizes the risk of potential embargoes on acquiring the product.

Occupying 9 million square meters, the plant was designed to ensure maximum operational safety levels due to the possibility of combustion. It contains contention cells and a fire-fighting system.



### LORENA UNIT

The unit is staffed by approximately 90 employees.

**Jacareí Unit**

Installation 2 houses a major part of Avibras's industrial capacity. It comprises dozens of plants manned by up to 4,500 employees, working three shifts.

The areas include: engineering, mechanical and chemical manufacturing, composite materials, manufacture of rocket and missile launch containers, surface treatment (KTL), quality laboratories, X-ray inspection, commercial and administrative offices, as well as the RPA (Remotely Piloted Aircraft) manufacturing area, testing benches (rocket and combustion engines and turbines), a special vehicle testing ground and armament bunkers.

In 2014, the Jacareí installation inaugurated its armored vehicle plant, considered to be the most modern in Brazil. In an area of 18,000 square meters, the industrial complex has boosted the company's production and technological capacity while reducing costs.

The bold, innovative design enabled the complex to centralize all industrial operations, providing expanded infrastructure to meet Brazilian and overseas demand. Production is currently around 100 vehicles per year.

The plant comprises the following areas: Special Vehicle Manufacturing (Mechanics, Electronics and Integration; Vehicle Design and Engineering; Technical Documentation; Quality Assurance, Inert and Chemical Materials Storage Areas. The new plant also houses the Customer Support Department, with training areas for customers.

Focused on sustainability, the installations were designed with roofing that permits natural lighting and thermal insulation to ensure greater comfort for employees. LED lights were also installed, resulting in significant energy savings. The design incorporated facilities for harvesting rainwater, which is used in the gardens and toilets, reducing overall water consumption.



The Jacareí installation houses a significant part of Avibras's industrial production capacity

The installation of the operations in a single location drives operational gains, with the reduction of logistics costs and increased productivity due to optimized process flows.

The inauguration of the plant led to the beginning of the implantation of AS9100, the international quality management standard for the Aeronautics, Space and Defense industry.

This certification is important because it shows the company has the capacity to fulfill the needs and requirements of its customers, resulting in greater competitive advantage in the market. The certification is scheduled to be granted in the second half of 2017.

## Customer satisfaction

G4-PR1, G4-PR2, G4-PR5

Avibras evaluates 100 % of the products it acquires and manufactures, at the acquisition and manufacturing (development and production) stages, as well as upon delivery of the end product, ensuring quality and safety for customers.

The degree of defense product customer satisfaction is measured using the customer satisfaction index, the indicator applied to Brazilian customers.

In 2016, we assessed the satisfaction of the company's two active clients, achieving an average satisfaction rate of 87.5%.

Another result arising from this work is the inexistence of recorded cases of non-compliance with regulations and voluntary codes related to impacts on customers caused by products and services.

### Customer Support

We build and cultivate long-term relationships with our customers through the provision of complete Integrated Logistic Support. Our highly specialized work force is fully focused on the customer.

This program encompasses training, technical support, the supply of simulators, equipment, replacement parts and special tools.

## Certifications G4-15

Avibras is certified in surface treatment production areas in accordance with the international ISO 9001 standard. The company has armed forces Allied Quality Assurance Publication AQAP – 2110 certification, covering defense system design, development, manufacture, integration and technical assistance, key recognition of the company's quality system for the provision of services in the aerospace sector.

The standard is employed by the member nations of the North Atlantic Treaty Organization (NATO) to ensure quality during the full life cycle of product, service and defense system processes.

Avibras also has Brazilian Army certification in the INAvEx 1005 standard: Assessment and Qualification of Companies and Civil and Military Organizations for the execution of maintenance services for the Army Aviation wing.



# sustainable management

- > Results: financial health
- > Leadership and people
- > Social and environmental performance

## material topics

- \_ Business strategy and economic performance
- \_ Qualification of human capital
- \_ Community relations and local development

# Results: financial health

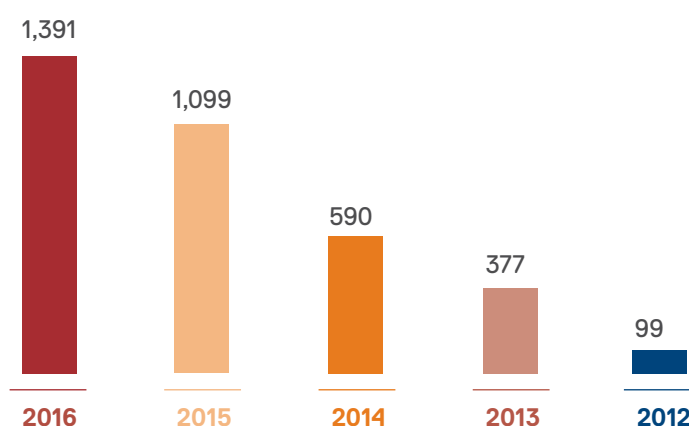
## Growth and reformulations G4-EC1

In 2016, Avibras's net operating revenue grew for the fifth year running, reaching almost ten times the 2012 figure and 27% up on 2015.

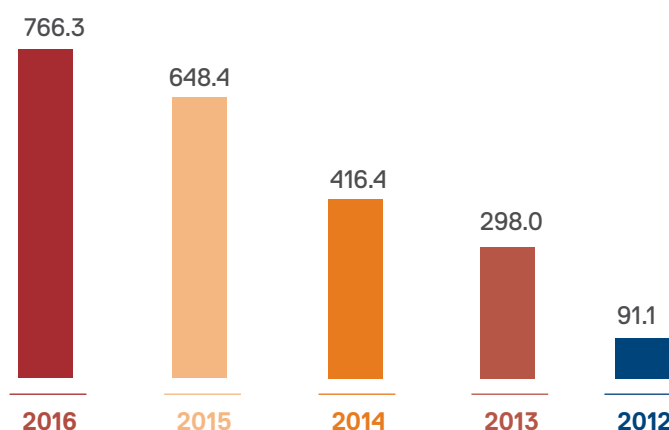
*“Integrated project planning and lengthening contracts have enabled us to minimize the financial effects of seasonal variations in sales”*

**Cynthia Benedetto**  
Financial Director

### Net operating revenue (R\$ million)



### Net revenue per employee (thousands of R\$)







2016 was an extremely productive year, in which the company met customers requirements, ensuring full satisfaction

The year was considered exceptional for the company, principally in view of the number of active, simultaneous contracts. If, on the one hand this was the main driver of significant revenue growth, on the other it generated pressure on working capital, due mainly to the need to acquire inputs and contract manpower for production.

The challenge in the year was to alleviate this pressure on working capital, which led the company to adopt a strategy of reorganizing processes and renegotiating contracts, focused on reinforcing cash flow without having to cut investments.

Contract renegotiations were aimed at lengthening them, organizing delivery deadlines to ensure that cash flow would enable the acquisition of inputs in a phased manner without hindering the progress of any active projects. This was only made possible by integrating the planning of the processes in course.

At the end of the year, the organization was able to fulfill its expectations, not only establishing a consistent cash flow in line with the needs of the contracts in progress, but also by driving synergy among the different projects being executed simultaneously, better organizing the planning of procurement and payments while honoring financial and tax obligations.

## The overseas market continues to be the company's main source of revenue, but we visualize opportunities in the Brazilian market

### Influence of the economic conjuncture

The domestic and overseas economic conjunctures exercise a strong influence on Avibras's results and outlook.

Domestically, the federal government's cap on spending resulted in fewer prospects of new contracts, leading company management to expect more timid new order entry.

In the overseas market, the drop in oil prices affected some of our major customers with active contracts, leading to delays in the payment of installments, which in turn increased pressure on cash flow. To resolve this issue the company undertook an active exercise in relationship aimed at finding consensual solutions. This involved adjusting delivery times and payments in order not to compromise the cash flow for each project.

## Reinforcing cash flow ensures the execution of projects without cutting investments

## 2016 results

### NET INCOME

**R\$ 255**  
MILLION

### NET MARGIN

**18%**

### NET REVENUE

**R\$ 1.4**  
BILLION

### EBITDA

**R\$ 425**  
MILLION

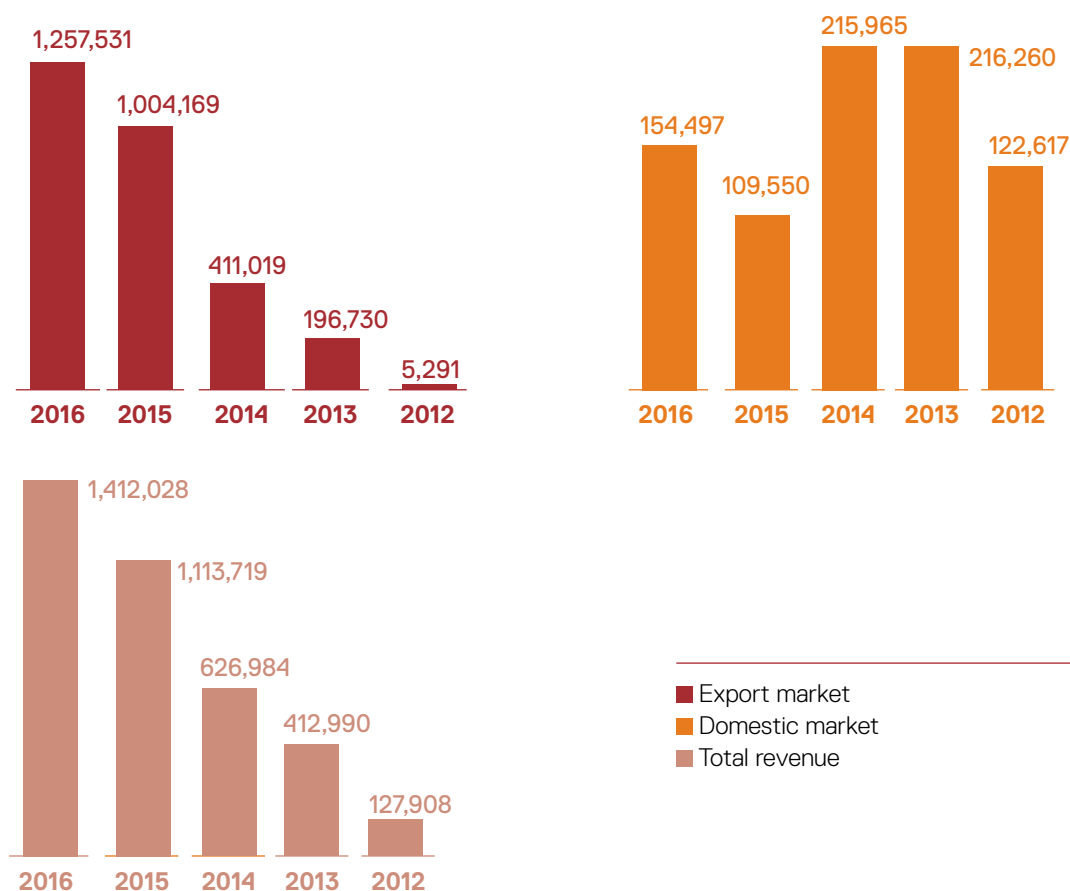
### EBITDA MARGIN

**31%**

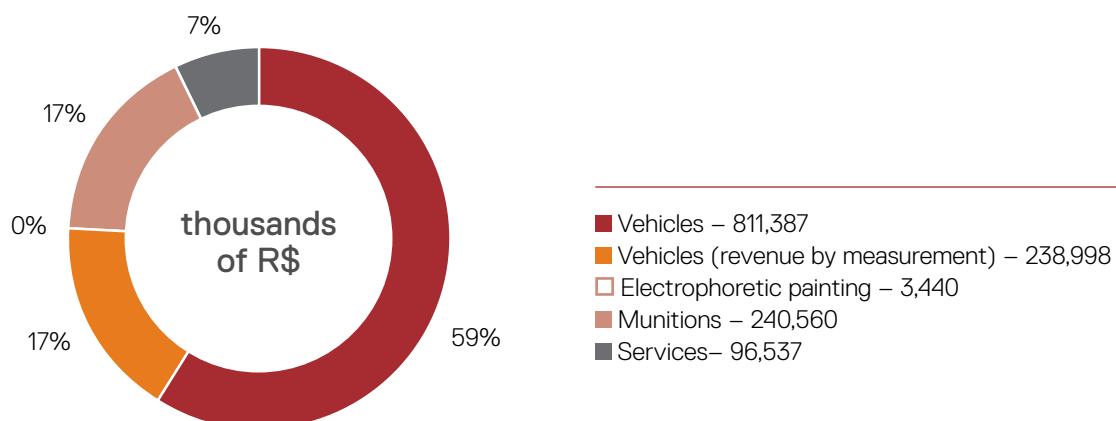
### Outlook

The defense business has cyclical characteristics, alternating between periods when contracts are abundant and less intense moments. With the strategy of lengthening contracts and phasing deliveries, together with the restructuring of processes to drive greater synergy between the projects in progress, Avibras expects to reduce the effects of periods with fewer new contracts, giving the company breathing room to prospect new business opportunities.

## Origin and evolution of gross revenue by product line and market (thousands of R\$)



## Net revenue by product line



### Distribution of added value

Revenue growth from sales, particularly exports, explains the variation in added value in recent years. The new technologies and products developed drive Avibras's competitiveness in the restricted global defense market, promoting a growing backlog of firm contracts, particularly in the export market, boosting operating revenues in the short and long terms and ensuring robust operating results.

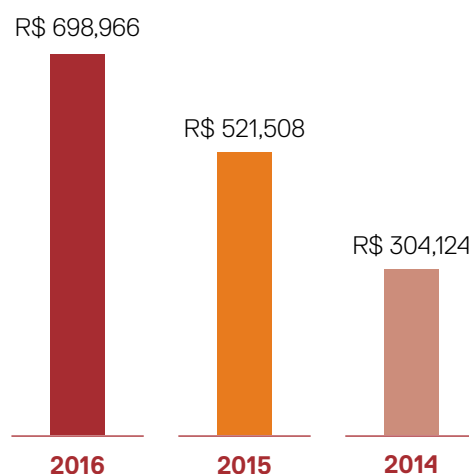
Additionally, continuous sales growth means increased taxes and contributions, elevating remuneration for the government and the demand for inputs and services.

During 2015 and 2016, Avibras expanded its work force to fulfill new sales contracts, generating an increase in expenses in the remuneration of labor.

### Target

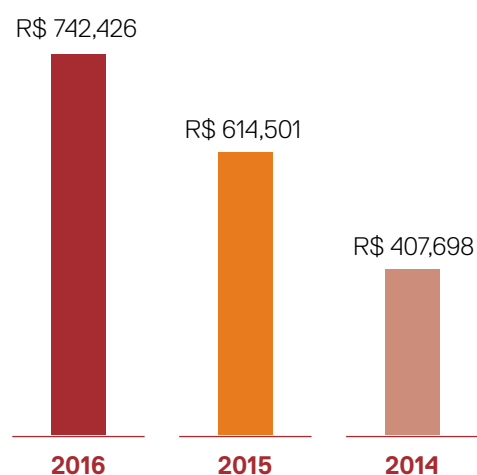
The main target for 2017 is to increase the backlog of contracts which, allied with the modernization of procurement management and the systematic accompaniment of production processes, will boost our EBITDA and profitability indicators.

### Economic value retained<sup>1</sup>

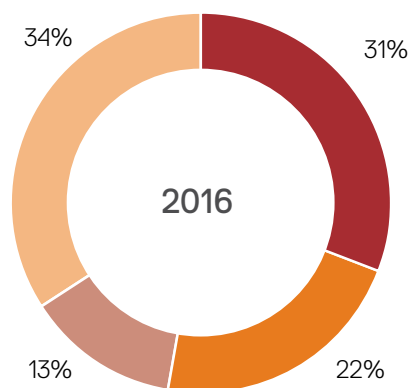


<sup>1</sup> Direct economic value generated less economic value distributed.

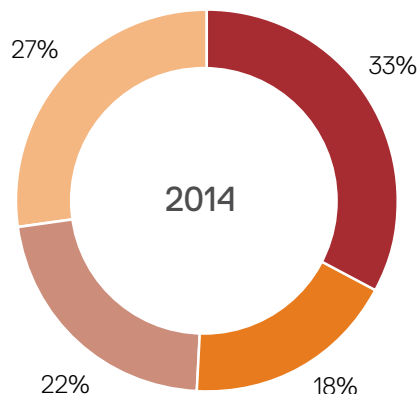
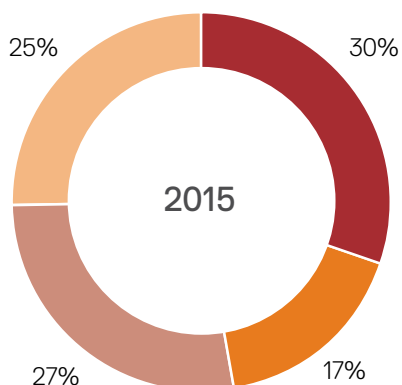
### Added value distributed



## Distribution of added value



- Remuneration of work
- Remuneration of government - Taxes, charges and contributions
- Remuneration of third-party capital
- Remuneration of own equity



## Generation of Added Value

	2016	2015	2014
<b>Gross added value<sup>1</sup></b>	R\$ 744,357	R\$ 622,329	R\$ 416,063
Revenues	R\$ 1,441,392	R\$ 1,136,009	R\$ 711,822
Inputs acquired from third-parties	R\$ 697,035	R\$ 513,680	R\$ 295,759
<b>Net added value produced<sup>2</sup></b>	R\$ 726,442	R\$ 609,430	R\$ 405,600
Depreciation and amortization	R\$ 17,915	R\$ 12,899	R\$ 10,463
<b>Total added value for distribution<sup>3</sup></b>	R\$ 742,426	R\$ 614,501	R\$ 407,698
Added value received in transfer	R\$ 15,984	R\$ 5,071	R\$ 2,098

1. revenues less cost of inputs

2. gross added value less depreciation and amortization

3. net added value + value received in transfer



# Leadership and people

## Our main capital

Our employees are our major asset. The retention and engagement of intellectual capital is essential for the organization

The Avibras work force is the company's lifeblood. Their work, energy and willingness enable the company to generate and share value on an ongoing basis.

Avibras people management policy is focused on an effective partnership with employees, the organization's main asset, developing people to drive better results.

Our values express the essential principles that support our vision, guide our actions, define who we are and what we believe in.

Retaining and engaging human capital are challenges for the company, particularly due to the high level of specialization required by the business.

Avibras wants its employees to participate in the day to day running of the company, contributing freely with innovative ideas, focused on continuous process improvement.

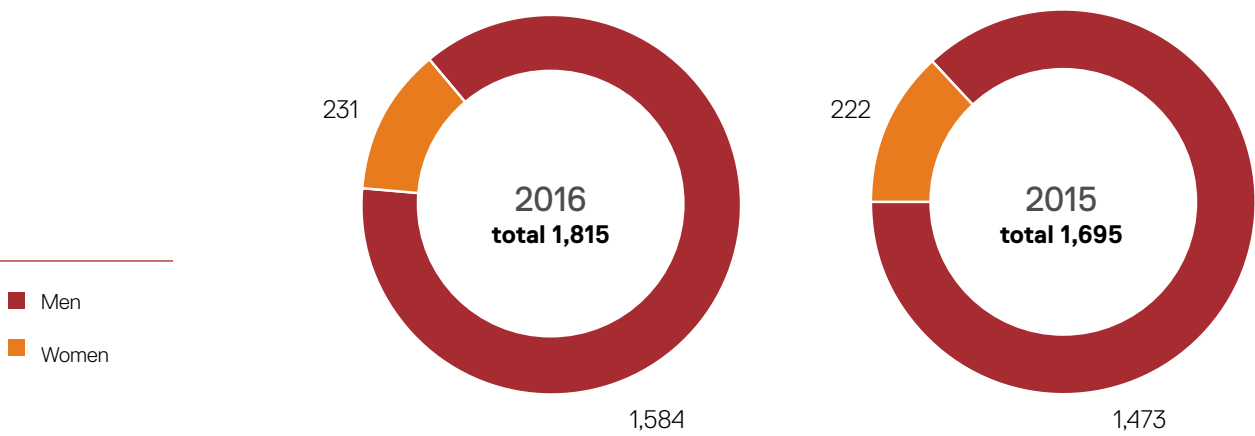
The company also adopts an appraisal methodology that ensures equal growth opportunities for all employees, in accordance with their results and regardless of their length of service.

The essence of Avibras is its work force

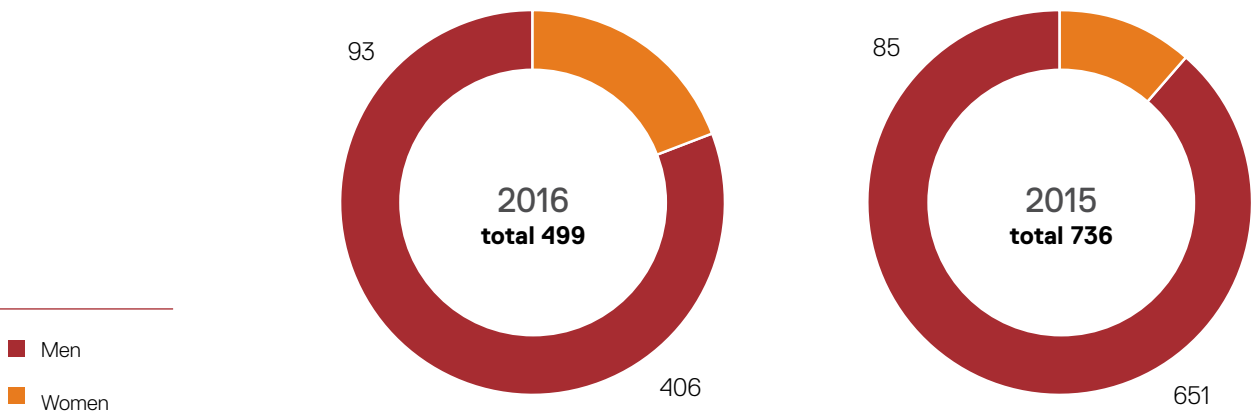


Human capital indicators G4-10

Total employees - by gender



Third-parties



Employees by functional level	2016		2015		2014	
	Men	Women	Men	Women	Men	Women
Directors	5	1	7	0	7	0
Management	30	0	32	0	32	0
Coordination	42	5	47	6	44	7
Supervision	23	5	27	5	30	5
Engineer/technician	494	68	486	70	432	62
Operational	815	27	706	25	548	19
Administrative	145	114	142	105	112	82
Apprentices	20	6	17	7	19	7
Interns	10	5	9	4	6	4
Total	1,584	231	1,473	222	1,230	186

Employees by type of work contract	2016		2015		2014	
	Men	Women	Men	Women	Men	Women
Fixed term	636	65	560	63	370	45
Permanent	948	166	913	159	860	141
Total	1,584	231	1,473	222	1,230	186

Employees by type of employment	2016		2015		2014	
	Men	Women	Men	Women	Men	Women
Full-time	1,576	219	1,466	212	1,223	180
Part-time	8	12	7	10	7	6
Total	1,584	231	1,473	222	1,230	186

## Turnover G4-LA1

Analysis of the data shows consistency in the numbers for age group and gender over the three years. In 2016, it was necessary to increase the size of the work force to fulfill the contracts in place.

In 2016, the difference between the number of admissions and terminations was 117. Admissions corresponded to 21% of the total, while the termination rate was 16%.

Number of terminations by gender	2016	2015	2014
Men	230	124	199
Women	33	28	33
Total	263	152	232

Number of terminations by age group	2016	2015	2014
Under 30 years	103	71	90
From 31 to 50 years	101	62	103
Over 50 years	59	19	39
Total	263	152	232

Turnover rate by gender (%)	2016	2015	2014
Men	13%	7%	14%
Women	2%	2%	2%

Turnover rate by age group (%)	2016	2015	2014
Under 30 years	6%	4%	6%
From 31 to 50 years	6%	4%	7%
Over 50 years	3%	1%	3%

# 1,815

people make up  
the Avibras work  
force

Number of admissions by gender	2016	2015	2014
Men	338	367	307
Women	42	64	40
Total	380	431	347

Number of admissions by age group	2016	2015	2014
Under 30 years	207	226	174
From 31 to 50 years	160	183	147
Over 50 years	13	22	26
Total	380	431	347

New admissions rate by gender (%)	2016	2015	2014
Men	19%	22%	22%
Women	2%	4%	3%

New admissions rate by age group (%)	2016	2015	2014
Under 30 years	11%	13%	12%
From 31 to 50 years	9%	11%	10%
Over 50 years	1%	1%	2%



## Our technological evolution is only made possible by highly trained professionals

### Training and Education G4-LA9, G4-LA10

Maintaining a highly trained and qualified body of professionals is what drives Avibras's constant technological evolution.

To ensure employees remained updated, the company promotes specific training identified via gaps in individual or organizational competencies. In 2016, training was focused on the skills necessary for the organization.

For 2017, Avibras will elaborate training programs oriented to the company's strategic planning, focused on developing critical competencies for the business, as well as recycling and developing leaders.

Employees are also allowed leaves of absence to take specific courses, including master's and doctoral programs.

### Average number of hours training per employee

Functional Category	2016		
	Employees	Hours	Hours/employee
Directors	7	2	0.29
Management	31	144	4.65
Coordination	49	314	6.41
Supervision	30	1,897	63.23
Engineers/technicians	569	6,398	11.24
Operational	845	2,000	2.37
Administrative	261	2,862	10.97
Trainees	0	0	0.00
Apprentices	27	18,000	666.67
Interns	16	360	22.50
Third-parties	499	122	0.24
<b>Total</b>	<b>2,334</b>	<b>32,099</b>	<b>788.56</b>
Men	2,007	25,614	12.76
Women	327	6,485	19.83

Functional Category	2015		
	Employees	Hours	Hours/employee
Directors	7	0	0
Management	32	432	13.50
Coordination	53	166	3.13
Supervision	32	576	18
Engineers/technicians	556	7,053	12.68
Operational	731	2,000	2.74
Administrative	247	1,286	5.21
Trainees	0	0	0
Apprentices	24	18,000	750
Interns	13	360	27.69
Third-parties	736	100	0.10
<b>Total</b>	<b>2,431</b>	<b>27,973</b>	<b>829.49</b>
Men	2,124	25,064	11.80
Women	307	2,909	9.48

Functional Category	2014		
	Employees	Hours	Hours/employee
Directors	7	0	0
Management	32	80	2.5
Coordination	51	135	2.65
Supervision	35	487	13.91
Engineers/technicians	494	6,444	13.04
Operational	567	2,000	3.53
Administrative	194	2017	10.39
Trainees	0	0	0
Apprentices	26	18,000	692.30
Interns	10	360	36
Third-parties	662	98	0.1
<b>Total</b>	<b>2,078</b>	<b>27,621</b>	<b>767.31</b>
Men	1,815	24,678	13.60
Women	263	2,943	11.19

Avibras also provides competency management and continuous learning programs that support ongoing employability for staff.

Programs offered	Description	Target Public
Internal training courses	<ul style="list-style-type: none"> <li>• Fire brigade and first aid</li> <li>• Defensive driving</li> <li>• Forklift operation</li> <li>• Travelling crane operation</li> <li>• Work in confined spaces and at height</li> <li>• Writing techniques</li> <li>• Reading and interpreting technical designs</li> </ul>	Administrative and operational
Financial support for external training courses and education	<ul style="list-style-type: none"> <li>• English</li> <li>• Postgraduate business management</li> <li>• Project management</li> <li>• Production management</li> </ul>	Administrative and operational
Recycling for staff intending to continue working	<ul style="list-style-type: none"> <li>• Forklift operators</li> <li>• Traveling crane operators</li> <li>• Fire brigade</li> <li>• Training in NR10 standard</li> </ul>	Administrative and operational
Outplacement services		
Assistance in transition to a life without work		



Constant training: brigade members participate in an emergency drill

## People management at Avibra is aimed at creating value, motivating and developing people

### Remuneration and benefits

#### G4-EC5, G4-LA2

Avibras offers salaries based on surveys that make comparisons with companies in the same segment, having the same size and location.

The company also provides differentiated benefits designed to attract and retain talent. The objective is to promote employee well being and quality of life.

## Benefits

In addition to mandatory benefits provided for by law, Avibras offers:

- Life insurance
- Health plan
- Coverage for incapacity/invalidity
- Extended maternity leave
- Private pension plan
- Dental plan

## Remuneration: variation between the lowest salary and the minimum salary

	2016		2015		2014	
	Men	Women	Men	Women	Men	Women
<b>Jacareí Unit<sup>1</sup></b>						
Lowest salary	R\$ 2,081.20	R\$ 2,382.60	R\$ 1,795.20	R\$ 2,173.60	R\$ 1,716.00	R\$ 1,716.00
Category minimum <sup>2</sup>	R\$ 2,081.00	R\$ 2,081.00	R\$ 1,794.00	R\$ 1,794.00	R\$ 1,560.00	R\$ 1,560.00
Ratio %	100%	114%	100%	121%	110%	110%
<b>Lorena Unit<sup>3</sup></b>						
Lowest salary	R\$ 1,841.40	N/A	R\$ 1,680.80	N/A	R\$ 1,526.80	N/A
Category minimum	R\$ 1,636.02	R\$ 1,636.02	R\$ 1,410.36	R\$ 1,410.36	R\$ 1,125.14	R\$ 1,125.14
Ratio %	113%	N/A	119%	N/A	136%	N/A

1. The minimum salary at the Jacareí unit is higher than at the Lorena unit.

2. Determined by federal or state legislation or unions.

3. There are no female employees at the Lorena unit.

## Quality of Life and Safety

For Avibras, the professional fulfillment of employees is consolidated by a balance between the individual's professional excellence, safety, health and quality of life.

To ensure employee safety, Avibras adopts special measures in its infrastructure (read more in Our Products and Services - Operational excellence; p.24).

Additionally it promotes actions beyond the mandatory programs, such as the Specialized Safety Engineering and Occupational Medicine service (SESMT), complementing the Environmental Risk Prevention program, the Hearing Conservation program; the

Respiratory Protection program; the Internal Accident Prevention Committee (CIPA); the Defensive Driving course and sun block dispensers located around the company premises.

Quality of life is based on pillars such as family, social interaction, the environment and financial health, among others. To ensure this, the company participates in the "Sesi Healthy Industry" program, aimed at creating a work environment that enables employees to adopt a safe, healthy and productive life style, through the offer of integrated health promotion and quality of life services for employees.

Additionally, the company maintains anti-smoking programs; breast cancer prevention campaigns and others for diseases affecting women and men; guidance on financial health; guidance on pensions and social support for employees' families.

### **Safety performance G4-LA6, G4-LA7**

The injury rate for men increased by approximately three points between 2014 and 2016. To a significant extent this was due to the increase in the work force during this period. The figure was also affected by the injury rate among employees working in their function for less than a year.



Employee health and quality of life: permanent subjects on the Avibras agenda



## Health and safety rates

By employee and gender	2016		2015		2014	
	Men	Women	Men	Women	Men	Women
Injuries	17.3	0.4	15.1	5.1	15.7	4.0
Occupational diseases	0	0	0	0	0	0
Days lost	1,112	15	765	0	766	1
Absenteeism	2.0%	2.2%	2.4%	2.6%	2.2%	2.5%
Fatalities	0	0	0	0	0	0

## Worker health and safety rates

Permanent and third party employees – by facility	2016			2015			2014			
	F1	F2	F3	F1	F2	F3	F1	F2	F3	F4
Injury rate	40.8	18.3	4.5	0.0	13.9	17.8	0.0	15.0	12.6	12.77
Occupational disease rate	0	0	0	0	0	0	0	0	0	0
Total days lost	2	1,120	0	0	750	15	0	717	13	37
Absenteeism rate	0.9%	2.7%	0.0%	0.0%	2.0%	0.7%	0.0%	2.9%	0.6%	0.5%
Total fatalities	0	0	0	0	0	0	0	0	0	0

F1: Avibras Installation 1 located in São José dos Campos; F2: Avibras Installation 2 located in Jacareí; F3: Avibras Installation 3 located in Lorena; F4: Avibras Installation 4 located in São José dos Campos (this facility was closed in 2014, and its activities were transferred to F2. This is the reason the installation does not appear in 2015 and 2016).

### Target

For 2017, Avibras has the target of reducing cases of injury, as well as to start monitoring cases involving third-parties who provide services for the company.

The company has rigorous safety measures in place to protect the physical integrity of its employees. The same attention is given to security measures designed to preserve its installations, products and confidential information.

Avibras invests in programs to ensure employee health and well being



## Complaints and grievances related to labor practices G4-EC1

	2016	2015	2014
Filed	15	10	8
Addressed to the sector responsible	15	8	8
Resolved	1	3	1
Filed before the period and resolved during the period	3	3	6

### Performance appraisal

Initiated in October 2015, the objective of the Performance Appraisal Program is to monitor employee performance and promote their development as well as that of the company over time. This represents an opportunity for interaction and feedback for all.

The initiative is part of the “Avibras + 50” program, aimed at developing strategic measures to guide the company’s sustainable development over the next 50 years.

The program is aimed at generating shared value for the entire business chain and the stakeholder groups with which the company has relations.

Valuing employees and enabling them to visualize their prospects for growth, in addition to emphasizing the importance of their development, drives value creation, motivation and professional development.

### Satisfaction in the work environment G4-LA16

As a company Avibras is evolving constantly. To remain abreast of the changes and challenges, it needs professionals who are intensely committed to its culture.

The results of the work done by each employee reflect their choice and their commitment to the future. Employees seek to grow with the company, learning every day and investing in their personal and professional development.

The company’s strategic planning provides for the implantation of a formal process to measure levels of satisfaction in the work place. This will be introduced in the near future.

Currently, the company has an indicator that measures complaints about labor practices, managed by the Human Resources area. In 2016, the questions most frequently addressed concerned occupational diseases, overtime and work accidents.

An exclusive communication channel with employees at all the company’s installations



# Social and Environmental Performance

## Incorporation of sustainability into company strategy

Avibras is increasingly focused on sustainability. We value growth oriented to ethical conduct and transparency, caring for the environment and for people.

We generate shared value for all our stakeholder groups. Dialogue breeds successful initiatives aimed at meeting society's needs today and in the future.

The restructuring of company governance and management, with the institution of the Sustainability Committee provides for the implantation of tools to measure, monitor and improve results in the economic, environmental and social dimensions.

### Managing for Sustainability

The Sustainability Committee is Avibras's main social and environmental management body, supporting the company's governance and administration. (further information in Corporate Governance - Organization and Management Mechanisms; p. 17).

Its role is to disseminate and reinforce the concept of sustainability among the company's stakeholders and to recommend and formulate actions and measures that foment sustainability strategies. Another attribution is to establish corporate guidelines and actions, as well as reconciling economic development with social and environmental responsibility measures, incorporating them into strategic planning.

The committee also has the function of mapping the sustainability performance indicators in existence in the company and proposing improvements based on the data measured.

The sustainability committee is chaired by the CEO of the company. He is the sponsor, with responsibility for decision making and delegation of attributions to the committee.



Focused on social responsibility, Avibras supports and incentivizes projects that benefit the community

## Society G4-SO1, G4-EC8

We share value by reconciling questions of economic development with social and environmental responsibility

Avibras's behavior is just as important as its economic performance and its products. Social responsibility measures are integrated into the company's strategy and mission.

In line with this directive, the company has been preparing the resumption of the activities of the Fundação Avibras. In the 1980s, driven by the dream of Avibras's founder, João Verdi Carvalho Leite, the Fundação Avibras played an important social role in Brazil, providing underprivileged youngsters with quality education and a moral and professional formation based on the motto "Education and Work".

The foundation's objective has always been to increase the company's participation in the community life of São José dos Campos and region, providing young people with quality education, qualifications and a start in their professional life. This led to a project to provide gifted but underprivileged young people aged fourteen and over with study scholarships.

So far more than 300 people have benefited. Today these are highly trained professionals working in the most diverse areas of knowledge.

The Avibras Lorena Installation opened its premises for the Brazilian army to carry out the Contingency Security Exercise for the Olympic and Paralympic Games held in Rio de Janeiro in 2016





## Community actions G4-SO1

We promote development with education, health and security projects.

More than just investing in social actions, corporate social responsibility is an opportunity to demonstrate the company's cultural and ethical values to its internal and external audiences.

Although there is not yet a formal process for investing in social actions, relationship with society is part of the organization's growth strategy.

**Avibras in Rinem** - Avibras is a founder and one of the 40 companies that participate in the Vale do Ribeira and North Coast Integrated Emergency Network. Rinem has a system with 102 points of exclusive radio communication uniting private companies, hospitals and public authorities in an initiative dedicated to saving lives.

The objective is to develop and implement integrated projects, programs and activities aimed at preventing, combating and controlling any kind of incident that puts human life, the environment and public and private property at risk in the region.

**Third Sector** - The Jacareí-based non-profit association Cepac, which provides services for persons with neurological disabilities (physical, intellectual, hearing, visual, multiple disabilities, syndromes and autism) and their families benefited from the donation of a heat exchanger which is essential for heating the pools in which the beneficiaries undergo therapy.

The company has also been providing the organization with support by publicizing its charity events in its communication media. The company donated food for the preparation of the main dish in the Jambreiro Tropeiro Festival.

**Community involvement** - Avibras frequently permits the Brazilian army, the Federal Police, Fire Brigade and Military Police and other organizations to use its Lorena facility for training activities.

In 2016, the facility opened its gates for the Army to hold the Contingency Security Exercise for the Rio de Janeiro Olympic and Paralympic Games. This involved training which was fundamental to guarantee security at one of the most important sporting events in the world calendar.

The installation was also used for practical exercises in the 2016 Drought Operation Preparatory Workshop aimed at training Civil Defense and Security agents to handle emergencies and disasters, particularly those involving forest fires.

The heat exchanger donated by Avibras to Cepac enables hydrotherapy for patients with neurological disorders







Learning in industry: young people have the opportunity to apply concepts learned in the classroom as interns in the company

### **Young people in the labor market -**

Avibras provides opportunities for young people to begin their career through the Learning in Industry Program. This is a partnership with the national industry service Senai in which young people aged between 14 and 24 years apply the knowledge acquired in the classroom in industry during their internship.

### **Abandon the book, adopt reading**

On its premises Avibras has permanent areas called cultural points for the receipt of books and magazines which are made available to anyone who wants them.

This material is there for anyone who is interested in reading. Residential condominiums, schools, and stores may also participate in the campaign by becoming cultural points.

### **Targets**

Avibras has the following targets for its social actions in 2017:

**Support for the third sector –** increase donations to philanthropic institutions located in the cities in which Avibras operates.

**Young people in the labor market –** boost the number of young people benefiting from the Learning in Industry Program.

**Incentive for reading project –** to extend this permanent campaign to the municipal infant school located near Installation 2 in Jacaré.

**Community involvement –** Avibras will continue to open its gates, in particular Installation 3 in Lorena, for training exercises and workshops for public bodies such as the Army, Military Police, Fire Brigade, among others, reinforcing its support for community activities.

## Evolution of community engagement activities

By operation	2016	2015	2014
Total company operations	3	3	3
Company operations that implemented community engagement programs	2	2	2
Percentage of company operations that implemented community engagement programs	66.67%	66.67%	66.67%

Avibras infrastructure at the service of the community in the Rinem program



## Environment G4-EN31

Environmental practices at Avibras are focused on sustainable development and compliance with environmental legislation, with a management system based on NBR ISO 14001:2004 standard requirements.

Promoting employee awareness and development regarding environmental questions, so that they comply with and improve the system is one of the key ways in which the organization drives the continuous improvement of its environmental performance.

The Environmental Engineering area provides the Executive Board with support in addressing environmental questions and ensuring compliance with applicable legislation. The area has an environmental

management budget which, among other things, covers manpower, mandatory charges, licensing, water analyses, effluents and waste.

### Waste management

One of the key focuses in environmental management at Avibras is the final disposal of waste. Special attention is paid to hazardous waste. This was reinforced in 2016 with the implementation of the Total Waste Management project, which entailed the implantation of a waste center and selective collection bins for recyclable and non-recyclable materials. The objective is to reduce the generation of garbage and, whenever possible, commercialize materials in order to eliminate waste, reduce costs and increase the company's productivity.

Environmental costs (R\$)	2016	2015	2014
<b>Destination</b>	<b>1,412,202.44</b>	<b>926,561.02</b>	<b>723,588.62</b>
Waste treatment and disposal <sup>1</sup>	1,283,057.85	801,121.85	711,561.03
Emissions treatment (e.g.: spending on filters, agents)	129,144.59	125,439.17	12,027.59
Prevention and environmental	607,836.60	1,127,162.27	501,417.10
Addition expenses for installation of cleaner technologies (ex.: additional costs beyond standard technologies)	150,000.00	450,506.12	170,000.00
Other environmental mgmt costs <sup>2</sup>	457,836.60	676,656.15	331,417.10
<b>Total<sup>3</sup></b>	<b>2,020,039.04</b>	<b>2,053,723.29</b>	<b>1,225,005.72</b>

1. The fluctuation in the costs of treating and disposing of waste is a result of the quantity generated. The higher the production, the higher the volume of waste generated, driving higher treatment and disposal costs.

2. The fluctuation in "Other environmental management costs" is linked with variations in the cost of labor, expenditure on chemical analyses, licensing needs, variations in charges, environmental compensation, etc.

3. All the spending on environmental protection by the organization, or in its name, is aimed at preventing, reducing, controlling and documenting environmental aspects, impacts and risks. This also includes spending on disposal, treatment, sanitation and cleaning.



Disposal involves special procedures ranging from generation to final disposal. The company has CADRI waste disposal certification issued by the São Paulo environmental authority Cetesb.

Employees receive guidance on how to minimize waste generation and to decrease the pollution potential of waste, aimed at mitigating impacts on the environment and human health.

In 2016, Avibras initiated a study to enable selective garbage collection in its offices. The goal is to reduce waste disposed of in landfills, to encourage recycling and to raise employee awareness.



### Biodiversity

The main Avibras manufacturing units are located in ecologically privileged areas. The company seeks to preserve and restore its protected areas designated as Legal Reserves and Permanent Protection Areas (APP).

Installation 2 in Jacareí occupies an area of 2,718,870 square meters. Of this area, 447,290 square meters is designated as a permanent protection area and 587,661 square meters constitute the legal reserve area. A major part of Avibras's manufacturing facility borders on the Santa Branca reservoir, an area with a number of springs and a wide variety of fauna and flora, including various species threatened with extinction.

In Lorena, Installation 3 occupies an area of over 9,722,399 square meters, of which 2,113,822 square meters is permanent protection area and 2,359,182 square meters is legal reserve. These areas are home to various species of fauna, and its lakes are rich in fish.

Avibras also has a 17,922,810 square meter area in Ubatuba, on the north coast of the state of São Paulo, of which 17,610,410 square meters constitute a permanent preservation area.





# GRI content

- > Remissive index
- > Credits



# Adherence to the guidelines

Avibras publishes its first sustainability report. The company is compliant with the requirements for the core option of the GRI G4 guidelines.

## Remissive Index

GENERAL DISCLOSURES		
Aspect	Description	Page/response
Strategy and analysis	G4-1 Message from the chief executive	4
	G4-2 Description of main impacts, risks and opportunities	20
Organizational profile	G4-3 Name of the organization	11
	G4-4 Primary brands, products and/or services	27
	G4-5 Location of the organization's headquarters	12
	G4-6 Countries in which the operation's main or most relevant units for the sustainability aspects of the report are located	11
	G4-7 Nature of ownership and legal form	11
	G4-8 Markets served	27
	G4-9 Scale of organization	12
	G4-10 Employee profile	40-41
	G4-11 Percentage of employees covered by collective bargaining agreements	With the exception of interns, employees are covered by collective bargaining agreements. Third-party employees are covered by the agreements of their respective unions. All employees are represented by the Metalworkers' Union and the agreements signed apply to all of them.
	G4-12 Description of organization's supply chain	24
	G4-13 Significant changes in the organization's size, structure, ownership, and supplier chain	No significant changes

GENERAL DISCLOSURES		
Aspect	Description	Page/response
	G4-14 Description of how the precautionary approach or principle is addressed by the organization	24
	G4-15 Social charters, principles, or other initiatives developed externally	31
	G4-16 Participation in associations and organizations	Avibras is a member of industry associations both in Brazil and overseas. These include: Associação Brasileira das Indústrias de Material de Defesa e Segurança (Abimde), Sindicato Nacional das Indústrias de Materiais de Defesa (Simde), Associação das Indústrias Aeroespaciais do Brasil (AIAB) and the Association of the United States Army (AUSA).
Material aspects identified and boundaries	G4-17 Entities included in the organization's consolidated financial statements, and entities not included in the report	11
	G4-18 Process for defining the report content	7
	G4-19 List of material aspects	8
	G4-20 Boundary within the organization for each material aspect	8
	G4-21 Boundary outside the organization for each material aspect	8
	G4-22 Restatements of information provided in previous reports	Not applicable. This was the first report published by the company.
	G4-23 Significant changes in scope and boundaries of material aspects in relation to previous reports	Not applicable. This was the first report published by the company.
Stakeholder engagement	G4-24 List of stakeholder groups engaged by the organization	8
	G4-25 Basis for identification and selection of stakeholders with whom to engage	8
	G4-26 Approach to stakeholder engagement	8
	G4-27 Key topics and concerns that have been raised through engagement, by stakeholder group	8
Report profile	G4-28 Reporting period	7
	G4-29 Date of most recent previous report	Not applicable. This was the first report published by the company.

GENERAL DISCLOSURES		
Aspect	Description	Page/response
	G4-30 Reporting cycle	This is the first report published by Avibras. The reporting cycle has not yet been defined.
	G4-31 Contact point for questions regarding the report or its contents	sustentabilidade@avibras.com.br
	G4-32 Option of application of guidelines and location of GRI table	7
Governance	G4-33 Policy and current practice with regard to seeking external assurance for the report	The report was not submitted for external assurance
	G4-34 Organization's governance structure	19-20
Ethics and integrity	G4-56 Values, principles, standards and norms of behavior in the organization	21 - 22, 25

## SPECIFIC DISCLOSURES

Economic category		
Aspect	Description	Page/response
	G4-DMA Management approach	34-35, 47
	G4-EC1 Added value statement	33, 36 - 38
Economic performance	G4-EC4 Financial assistance received from government	Avibras received support in the form of subventions for investment and research. In 2015 the amount was R\$ 2,122,000 and in the last year it was R\$ 1,845,000.
	G4-EC5 Ratio of lowest salary paid to local minimum salary	47
Indirect economic impacts	G4-EC8 Description of significant indirect economic impacts	52
Environmental Category		
Aspect	Description	Page/response
General	G4-DMA Management approach	56
	G4-EN31 Total environmental protection expenditures and investments by type	56

SOCIAL CATEGORY - LABOR PRACTICES AND DECENT WORK		
Aspect	Description	Page/response
Employment	G4-DMA Management approach	42, 47
	G4-LA1 Employee admissions and turnover rate	42-43
	G4-LA2 Benefits for full-time and temporary workers	47
	G4-LA6 Injury, occupational disease and absenteeism rates	48-49
Occupational health and safety	G4-LA7 Incidence or risk of occupation-related diseases	There are no records of occupation related diseases. We had isolated cases of asbestosis related to the use of a determined product in the 1980s and 1990s. However this risk was mitigated by the substitution of the product
Training and education	G4-DMA Management approach	44,46
	G4-LA9 Average hours training per year	44-45
	G4-LA10 Programs for skills management and lifelong learning	44
Complaint and grievance mechanisms related to labor practices	G4-DMA Management approach	50
	G4-LA16 Number of complaints and grievances related to labor practices filed by means of formal mechanism	50

SOCIAL CATEGORY - SOCIETY		
Aspect	Description	Page/response
Local communities	G4-DMA Management approach	52-54
	G4-SO1 Percentage of operations with local community engagement, impact assessment and local development programs	55
Anti-corruption	G4-DMA Management approach	23-24
	G4-SO4 Percentage of employees trained in anti-corruption policies and procedures	23
	G4-SO5 Confirmed cases of corruption and measures taken	25
Public policies	G4-DMA Management approach	In 2016, Avibras made no financial contributions to parties or politicians
	G4-SO6 Policies on financial contributions to political parties, politicians or institutions	
Complaint and grievance mechanisms related to impacts on society	G4-DMA Management approach	There were no cases of complaints in the last three years (from 2014 to 2016)
	G4-SO11 Number of complaints and grievances related to impacts on society filed, addressed and resolved by means of formal mechanism	

SOCIAL CATEGORY - PRODUCT RESPONSIBILITY		
Aspect	Description	Page/response
Customer health and safety	G4-DMA Management approach	31
	G4-PR1 Assessment of health and safety impacts during the product and service life cycle	31
	G4-PR2 Non-conformance related to impacts caused by products and services	31
Product and service labeling	G4-DMA Management approach	31
	G4-PR5 Results of surveys measuring customer satisfaction	31



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